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PAGE 01 STATE 148059
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TAGS: EAIR, US, XE

SUBJECT: CIVAIR - ELECTRONIC AND OTHER FREIGHT
RATES

1. THE CIVIL AERONAUTICS BOARD ISSUED TWO ORDERS
RELATING TO PACIFIC FREIGHT RATES ON JUNE 16. ORDER
77-6-85 DISMISSES THE ELECTRONIC MANUFACTURERS' REQUEST
FOR RECONSIDERATION OF THE BOARD'S PREVIOUS APPROVAL OF
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PAGE 02 STATE 148059

THE IATA NORTH/CENTRAL PACIFIC AGREEMENT ON CARGO RATES
(OFTEN REFERRED TO AS THE "SAN DIEGO" AGREEMENT). THE
ORDER ARGUES ESSENTIALLY THAT ELECTRONICS MANUFACTURERS
HAVE NO VESTED RIGHT TO THE CONTINUATION OF RATES MORE
FAVORABLE THAN THOSE OFFERED OTHER SHIPPERS. HOWEVER,
IT DID DECIDE THAT, BECAUSE IT NOW APPEARS THAT THE
AGREEMENT MAY RESULT IN A RETURN ON INVESTMENT HIGHER

THAN THE 12 PERCENT THE BOARD USES AS A TARGET, THE LEAST JUSTIFIABLE INCREASES SHOULD BE DISAPPROVED, AND IT THEREFORE DISAPPROVED THAT PART OF THE AGREEMENT PROVIDING FOR AN INCREASE IN GENERAL CONTAINER RATES. IF THE ELECTRONICS SHIPPERS' CLAIMS CONCERNING THE DENSITY OF THEIR CARGO ARE CORRECT, THEY WILL BE ABLE TO MITIGATE THE EFFECTS OF THE NEW AGREEMENT BY USING THESE LATTER RATES, RATHER THAN USING THE BULK SPECIFIC COMMODITY RATE FOR ELECTRONICS AT ITS NEW, HIGHER, LEVEL.

2. ORDER 77-6-86 DISMISSES COMPLAINTS AGAINST FILINGS BY IATA AIRLINES TO IMPLEMENT MOST PARTS OF THE SAN DIEGO AGREEMENT. IT ALSO DISMISSES COMPLAINTS AGAINST NORTHWEST'S FILING, WHICH INCLUDES THE 9902 SERIES OF CONTAINER RATES FOR SPECIFIC COMMODITIES, INCLUDING ELECTRONICS, BUT AT A HIGHER LEVEL THAN PREVIOUSLY. THE FIRST GROUP OF COMPLAINTS, FILED BY THE ELECTRONICS MANUFACTURERS AND THE GOVERNMENT OF SINGAPORE, WERE DIRECTED AT THE INCREASES IN RATES FOR ELECTRONICS, AND THE BOARD'S ARGUMENT FOLLOWED LINES SIMILAR TO THOSE IN PARA 1 ABOVE. THE SECOND GROUP, DIRECTED PRIMARILY AT NORTHWEST'S DESIRE TO MAINTAIN THE 9902 SERIES, WERE DISMISSED ON THE GROUND THAT NORTHWEST IS UNDER NO OBLIGATION TO ACCEPT IATA RATES, AND THAT ITS PROPOSAL IS A REASONABLE ONE, EVEN THOUGH THE BOARD OBJECTS IN GENERAL TO BROADLY DEFINED SPECIFIC COMMODITY RATES LIMITED OFFICIAL USE

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PAGE 03 STATE 148059

LIKE THE 9902 SERIES.

3. THESE ORDERS ARE VERY PROBABLY NOT THE END OF THE STORY. DEPARTMENT UNDERSTANDS THAT THE REPUBLIC OF CHINA, SINGAPORE, AND JAPAN HAVE ALL NOT ALLOWED FULL IMPLEMENTATION OF THE SAN DIEGO AGREEMENT, AND THE STATUS OF NORTHWEST'S 9902 SERIES, AT EITHER THE NEW OR THE OLD RATES, REMAINS FAR FROM CERTAIN. THE BOARD'S DISAPPROVAL OF GENERAL CONTAINER RATE INCREASES MAY ALSO MEET FOREIGN RESISTANCE.

4. COPIES OF THE ORDERS ARE BEING POUCHED FOR YOUR INFORMATION.

5. FOR TAIPEI: SINCE ABOVE DRAFTED DEPTOFF HAS BEEN VISITED BY LOCAL LAWYER NAMED JOHN MCLAUGHLIN, REPRESENTING CHINA AIRLINES. WHILE RECOGNIZING THAT HE IS AT END OF SEVERAL-LINK COMMUNICATIONS CHAIN, HE UNDERSTANDS THAT CHINESE AUTHORITIES REACTED NEGATIVELY TO BOARD ORDERS AND ARE AGAIN ANXIOUS TO ELIMINATE 9902 SERIES IN IMMEDIATE FUTURE. HE IS ANXIOUS TO AVOID CONFRONTATION AND ASKED WHAT OTHER COURSE OF ACTION MIGHT BE

OPEN. DEPTOFF NOTED THAT THE CHINESE GOVERNMENT MIGHT EXPRESS DISSATISFACTION WITH THE 9902 SERIES RATES IN ACCORDANCE WITH PARAGRAPH 7 OF THE ANNEX TO THE BILATERAL, PROVIDING AS FULL AN EXPLANATION AS POSSIBLE OF THE REASONS FOR ITS DISSATISFACTION. WHILE THIS MIGHT NOT LEAD TO A SOLUTION IT WOULD AT LEAST AVOID IMMEDIATE CONFRONTATION. ANOTHER POSSIBILITY, IF THE PRINCIPAL CHINESE OBJECTION WAS TO THE BROADNESS OF THE CATEGORIES COVERED BY THE 9902 RATES, WAS TO PERSUADE NORTHWEST TO AGREE TO A NARROWER REDEFINITION. (MCLAUGHLIN CLAIMED THAT THE "BASKET" NATURE OF THE 9902 SERIES WAS THE ASPECT NOW BEING MOST TALKED ABOUT, ALTHOUGH HE CONCEDED THAT PROBABLY THE UNDERLYING DESIRE WAS TO PROTECT CHINA AIRLINES, WHICH IS LESS PREPARED THAN NORTHWEST LIMITED OFFICIAL USE

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PAGE 04 STATE 148059

TO HANDLE CONTAINER TRAFFIC).

6. MCLAUGHLIN ALSO REPORTED THAT IATA AIRLINES SEEMED DISPOSED NOT REPEAT NOT TO CONTEST BOARD'S DENIAL OF INCREASES IN GENERAL CONTAINER RATES. CHRISTOPHER

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